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PROJECT NO. 52373

**REVIEW OF WHOLESALE
ELECTRIC MARKET DESIGN**

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**PUBLIC UTILITY COMMISSION
OF TEXAS**

**COMMENTS OF
CONSERVATIVE TEXANS FOR ENERGY INNOVATION**

COMES NOW Conservative Texans for Energy Innovation (CTEI) and files these Comments in response to the Commission's Questions for Comment filed in this proceeding on October 26, 2021. CTEI is a non-profit clean energy education and advocacy organization comprised of thousands of Texans seeking to promote energy innovation and clean energy policies grounded in the conservative principle of common sense, market-based solutions that allow fair competition and provide greater access to clean, affordable, and reliable energy.

COMMENTS

On October 19, 2021, CTEI joined with many other stakeholders in the ERCOT market in a filing supporting the Commission's efforts to reform the ERCOT market to avoid future sustained load-shed of like that Texans endured this past February during Winter Storm Uri.¹ We support the Commission taking decisive action to address the specific problems that caused and contributed to the February disaster, such as the Commission's recent adoption of Phase 1 of its weatherization requirements,² considering changes to the Operating Reserve Demand Curve and high system-wide price cap, and improving the procurement and use of Emergency Response Service to increase grid reliability. We also support ERCOT's actions to improve reliability of the grid, such as increasing the procurement of additional ancillary service as it operates the grid in a more conservative manner, expanding the opportunity for energy storage and load resources to

¹ ERCOT Stakeholders Reliability & Market Design Improvement Recommendations (Oct. 19, 2021).

² *Rulemaking to Establish Electric Weatherization Standards*, Project No. 51840 (Oct. 26, 2021) (to be published in the Texas Register on November 5, 2021).

provide reliability services, and addressing the need for transmission grid improvements that have been long delayed. As was described in the joint filing, additional No Regrets actions the Commission can take include enabling the use of demand response, load management, distributed generation, distributed energy storage, and aggregations of these resources to provide reliability services to the grid. In addition, supporting the efficient use of electricity so that Texans do not needlessly waste the state's resources would help reduce strain on the electric grid in both the winter and the summer.

These improvements to the ERCOT market are all consistent with key principles CTEI recommended should guide the Commission's deliberations on these issues:

1. Focus on the Facts
2. Define the Reliability Risks
3. Develop Clear Solutions to the Identified Risks
4. Avoid Quick Fixes
5. Maintain a Competitive Market
6. Be Open to New Technologies and Innovation

We respectfully recommend that the Commission continue to apply these key principles to its deliberations.

It is based on these principles that CTEI remains concerned about several market redesign proposals that remain under consideration, including a Load Serving Entity Obligation, a Generation Firming Requirement, and a Financial Hedging Obligation. Commissioner Cobos said it well when she questioned whether the Commission "is looking for reliability in all the wrong places."³ As the Commissioners recognized at their Work Session on October 21, there continues to be a lack of information regarding the costs of these market redesign proposals. No one knows what the implementation of these proposals would cost Texas consumers. There has not been a showing of how any of these proposals would have prevented the blackouts during Winter Storm

³ Commission Work Session on October 21, 2021.

Uri. If customers are going to be shouldered with higher costs, there should be clear assurances based on facts that confirm that customers are getting something for paying higher bills. Finally, there is no clear understanding regarding the impact these proposals may have on Texas' robust competitive market. Stakeholders (including the Independent Market Monitor) have expressed concern that the LSE Obligation may increase the potential for market power abuse by generation companies and that the costs imposed by this model will deter, if not effectively prevent, the development of new competitors who seek to bring innovation to consumers. Texas should be proud of its robust competitive electricity market and should avoid undermining a market structure that has brought innovation and significant investment to the state – especially when the market structure was not what caused the blackouts in February, but it was operational failures in the natural gas industry and the generation fleet.

Imposing a capacity market in lieu of ERCOT's current energy-only market is not a free-market, conservative response to Winter Storm Uri. A capacity market is “used in some wholesale electricity markets to pay resources for being available to meet peak electricity demand.”⁴ By this straightforward definition, the proposed LSE Obligation proposal is a capacity market. However, unlike the central capacity market structure used in PJM, New York , and New England, the LSE Obligation is a distributed capacity market, where the obligation to pay generation resources to be available in the future is imposed on market participants, in this case the load serving entities. Capacity markets have a history of costing customers more money and the regulatory schemes and intervention that must constantly be adjusted cannot accurately recreate the incentives in an energy-only market where pay for performance is a very strong and clear incentive. Moreover, a

⁴ *E.g.*, Michael Groggin, Capacity Markets: The Way of the Future or the Way of the Past?, Energy Systems Integration Group (March 20, 2020) available at <https://www.esig.energy/capacity-markets-the-way-of-the-future-or-the-way-of-the-past/>.

capacity market, no matter the form, would not have prevented the blackouts during Winter Storm Uri since that was a confluence of events no one predicted would occur more than a few days before the fact – a situation a forward capacity market is less able to address than a real-time competitive market.

Imposing a new firming obligation on all generation based on name plate capacity would be highly inefficient and also would have done nothing to prevent the events from Winter Storm Uri. Similar to a capacity market construct, this obligation would require generators to pay each other to provide “firming” service, but, in the end, the same generators would participate in the energy market with no increased reliability benefit for customers. Instead, additional costs would be incurred by affected generation resources and those costs would be passed on to consumers. The most efficient and cost-effective way to manage the variability of generation resources (and it is important to recognize that all generation resources are variable and are unable to generate at expected and unexpected times) is to ensure that the grid operator (ERCOT) has the tools to manage the dispatch of available resources and appropriate ancillary services to ensure that the grid remains balanced and reliable.

Finally, although little information has been provided to stakeholders to elaborate on the proposed Forward Shortage Energy Hedge, it appears to be an effort whereby ERCOT would assume some portion of the forward hedging responsibility that load serving entities already engage in and provide cover for those retail electric providers and other load serving entities that have not fully hedged on a daily basis. While this proposal is couched as protecting participants that are not fully hedged, it fails to acknowledge that the extent to which a REP hedges is a business decision in which sophisticated counter parties allocate risk. Yes, an inadequately hedged REP may face significant financial impacts and be forced from the market, but it is not the role of

ERCOT to protect them from their errors. Moreover, imposing this new obligation on the market would not have made a difference during Winter Storm Uri – many REPs worked diligently to increase their hedges as the severity of the storm became clearer, but a dramatic growth in load swamped their efforts – and this is not something even ERCOT could have hedged against itself. Risk management is a key responsibility of a REP and all other load serving entities and is a fundamental service they are selling to their customers. This is not a responsibility that the state, or an agency of the state, should be required to provide.

CTEI appreciates the Commission’s investigation into these issues and consideration of alternatives to improve reliability of the ERCOT grid. CTEI urges the Commission to rely on free markets and robust competition to deliver reliable solutions rather than government mandates. These proposed changes to the ERCOT market design would not have prevented the blackouts during Winter Storm Uri but fail when compared to free markets and robust competition.

Conclusion

CTEI appreciates the opportunity to provide these Comments and looks forward to working with the Commission and other interested parties on these issues.

Respectfully submitted,

A handwritten signature in black ink that reads "Matt Welch". The signature is written in a cursive, flowing style.

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